



The Budget Surplus Basics

**A primer comparing the Clinton Plan and GOP Plan
in *almost* layman's terms**

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The Federal Budget "Surplus" is a relatively new addition to the economic lexicon. Since enactment of the Balanced Budget Act in 1997 and because we have a strong and growing economy, the politics of Washington have changed from "***Deficits as far as the eye can see...***" to surplus "***as far as the eye can see.***"

Will the surpluses be raided for more Washington spending or will they be preserved for America's families? New spending or Tax relief? The Clinton Administration has proposed new taxes and a spending spree, along with more IOU's for Social Security and even more for Medicare.

The GOP proposes a different approach.

Basics of the Surplus

The surplus is money flowing into the federal government in excess of spending. The current surplus is being generated by a strong economy coupled with controls in federal spending created in the bipartisan Balanced Budget Agreement of 1997. It is predicted that over the next 10 years, the whole surplus will be about \$2.6 trillion dollars.

The surplus is composed of two parts:

1. The "on-budget" surplus is a combination of people paying their federal income taxes and other revenues. Over 10 years this portion of the surplus is going to be at least \$800 billion dollars.
2. The "off-budget" or Social Security surplus comes from payroll taxes collected to fund Social Security, as well as the interest on these taxes. Over 10 years this portion of the surplus will be about \$1.8 trillion.

For the next couple years it is expected that almost the entire surplus will be due to the Social Security surplus. But surpluses in the non-Social Security portion of the budget will grow every year as taxpayers pay more than the government needs.

That's why Republicans have proposed to lock away the Social Security surplus immediately – so that it can't be spent on more government programs. And, as those “on-budget” surpluses grow, Republicans will propose broad tax relief so that these overpayments will be returned to the taxpayer.

One more note about the surpluses – they should be even bigger than we expect! In estimating the size of the surplus, economists have assumed a conservative economic growth rate of just 1.7 percent in 2000. But according to many private sector forecasters, our growth could be stronger. That means larger surpluses – as long as we can keep the economy growing and government spending under control.

Locking up more than the President to strengthen Social Security and Medicare

The Republican plan to set aside 100 percent of the Social Security surplus represents more money than President Clinton proposes to hold for both Social Security and Medicare. Let's compare the simple math over ten years:

<u>FY 2000</u>		
<i>GOP Plan</i>	<i>100 percent</i>	<i>\$137 billion</i>
CLINTON PLAN	62 percent	\$85 billion
	38 percent	\$52 billion SS raided for spending

<u>OVER TEN YEARS</u>			
<i>GOP PLAN</i>			<i>\$1.8 trillion</i>
CLINTON PLAN	Social Security	\$1.33 trillion	
	Medicare	\$.345 billion	<u>\$1.68 trillion</u>
			-\$120 billion

And this is being extremely generous to the Clinton plan. Only IOU's are promised for Medicare. And remember, the President offers no reforms of any kind for either Social Security or Medicare.

More on the IOU's. The figures the White House attaches to Medicare in their proposal are nothing more than IOU's. What does that mean? When the Medicare bills come due in 2009, the taxpayer will STILL have to cut the check. In other words, the President doesn't put one dime into Medicare. In fact, he calls for almost \$9 billion in Medicare cuts to pay for new spending.

Creating a "Safe-Deposit Box" for 100% of the Social Security Surpluses

We all know that if Washington politicians and bureaucrats have money laying around they're going to spend it. That's why it's important to lock-up our Social Security surpluses -- so they won't be spent.

For all the rhetorical flourish in the Clinton budget, there is no concrete proposal for how the White House would secure the Social Security surpluses. They only earmark money without any legal mechanism to protect the funds.

The GOP plan locks the money up for real. The safe-deposit box concept would put the money off-limits legally. Any new spending proposal would have to be judged by whether it was important enough to tap in these surpluses or to put the nation further in debt.

Paying Down Debt

Many people don't realize that last year, for the first time in a generation, we made a \$51 billion down payment on the nation's public debt. We are on track to pay off almost \$100 billion in 1999. Under the GOP FY2000 plan, we'd re-pay more public debt, simply by setting the Social Security surpluses aside.

Maintaining the Spending Restraint of the Balanced Budget Act

The Balanced Budget Act of 1997 is one reason we have surpluses today. In this law, passed by Congress and signed by President Clinton, we agreed to restrain Federal spending so that we could achieve a balanced budget by the year 2002. Thanks to this law and the hard work of the American people who keep our economy strong, we met this goal quicker than anyone thought possible.

But if we break the spending limits or “caps” set out in this law, we would begin tapping into the people’s surpluses. Leaders of both parties are on record agreeing we ought to keep within these spending caps.

According to the independent Congressional Budget Office, the Clinton Administration Budget would break the spending caps by \$30 billion in just the first year of their plan.

In the GOP plan, we would maintain fiscal restraint and stay within these spending caps. This means new spending only in priority areas like in defense and education and it means finding ways to save money, cut spending and continue to weed out big government waste, fraud and abuse.

Providing Resources to Provide for the Nation’s Defense

The GOP budget plan calls for priority spending on the nation’s defense. The men and women who serve us in uniform deserve additional resources for better training and equipment.

Enacting Tax Relief in 2000 and Beyond

The American people are over-taxed. While the Clinton Administration proposes more than \$100 billion in tax increases, the GOP plan will propose tax relief beginning in 2000 and growing substantially over the next ten years.

After locking up the entire Social Security surplus to meet the needs of the nation’s elderly, our next goal will be to return some of the taxpayers’ over payment. After all, it’s their money. And if it stays here in Washington, as sure as the sun comes up in the morning, it’ll get frittered away on new spending.

The GOP plan will call for modest tax relief of about \$10-15 billion in the first year of the plan, growing to \$150-200 billion over five years and reaching about \$800 billion over ten years. Our budget plan will not specify how to cut taxes, but it will set the stage for a vigorous debate about how to return the tax dollar to the taxpayer.